

The Great Recession, Household Formation, and Homeownership rates: Implications for Minorities and Immigrants

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Presentation Structure

- Introduction
- Hypotheses
- Literature Review
- Historical Trends
- Data, Method, and Variables
- Homeownership Rates
- Homeownership Gaps
- Conclusion

The effect of the great recession on homeownership rates

Household formation

- Delay being householders
- Living together
- Increase in homeownership rates

Housing tenure choice

- Lose home
- Become renter
- Decrease in homeownership rates

The role of household formation for homeownership rates

- Traditional measurement of homeownership
 - The number of households that are owner-occupied divided by the total number of households or occupied housing units
- The important role of household formation on homeownership
 - Its role in determining the denominator of the homeownership calculation

Hypotheses

- There would be a stronger effect of the economic recession on household formation and homeownership of minorities or immigrants than that of the native-born White
- The gap in the homeownership rates between minorities or immigrants and the native-born Whites would be greater

Literature review:

Household formation

- Important determinant of housing needs
- Age, marriage, and childbearing (Kent, 1992; Garasky, 2001)
- Race/ethnicity (Hughes, 2003)
- Income and the cost of housing (Ermish, 1999; Haurin et al., 1993; Haurin et al., 1997)
- Unemployment rates (Hughes, 2003)

Literature review:

Housing tenure choice

- Considerable economic and social benefits for owner households as well as community (McCarthy et al., 2001)
- Race/Ethnicity (Painter et al., 2000; Masnick 2001b; Gabriel and Rosenthal, 2005)
- Nativity (Native-born vs. Foreign-born) (Alba and Nee, 1997; Myers and Lee, 1996; Myers and Lee, 1998; Borjas, 2002)

Previous Studies

Haurin and Rosenthal (2007)

- The household formation as endogenous variables on homeownership rates
- A bivariate probit with sample selection model

Yu and Myers (2009)

- Estimate the probability of an individual being a non-householder, a renter householder, or an owner householder
- Multinomial logistic models

Weaknesses of previous studies

Haurin and Rosenthal (2007)

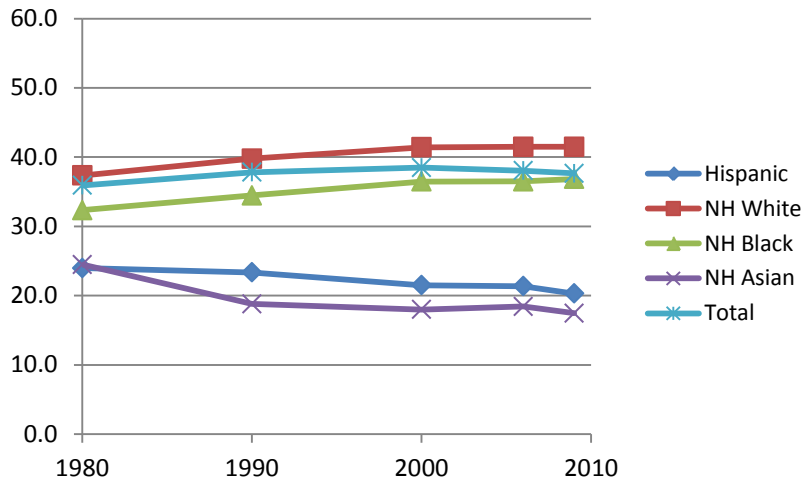
- Did not include personal income and housing market conditions
- They assumed all racial groups have same relative rates of household formation.

Yu and Myers (2009)

- Their analysis for homeownership rates is based on individuals
- Individual based analyses ignore the influences of household characteristics for homeownership rates

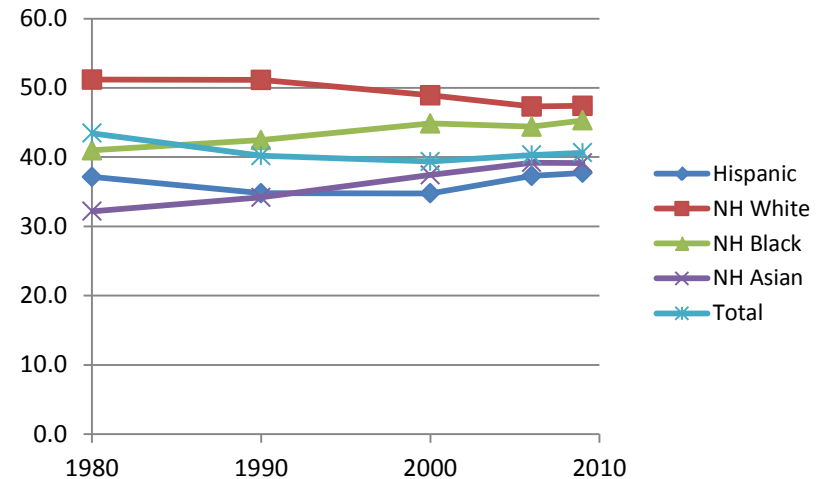
Household formation

Native-born



- Headship rate is the highest in 2000
- Higher Whites and Blacks headship rates
- Lower Asians and Hispanic headship rates

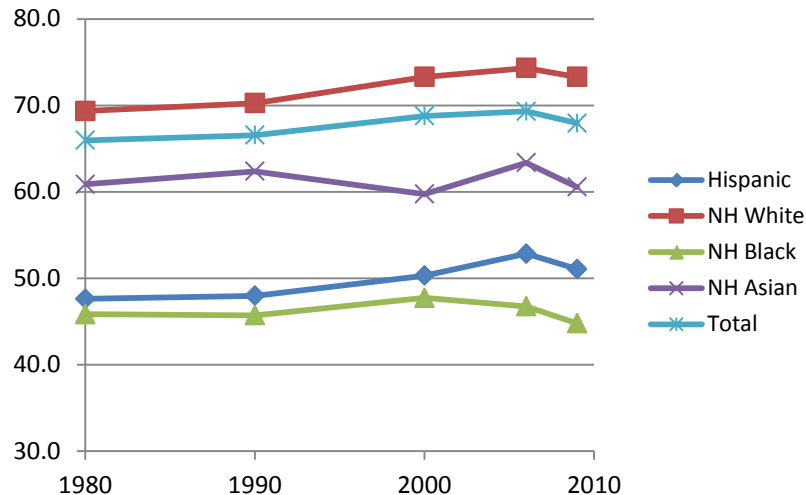
Foreign-born



- Headship rate is the lowest in 2000
- Blacks, Asians, and Hispanics have increased or kept similar rates
- Whites shows decreasing trend

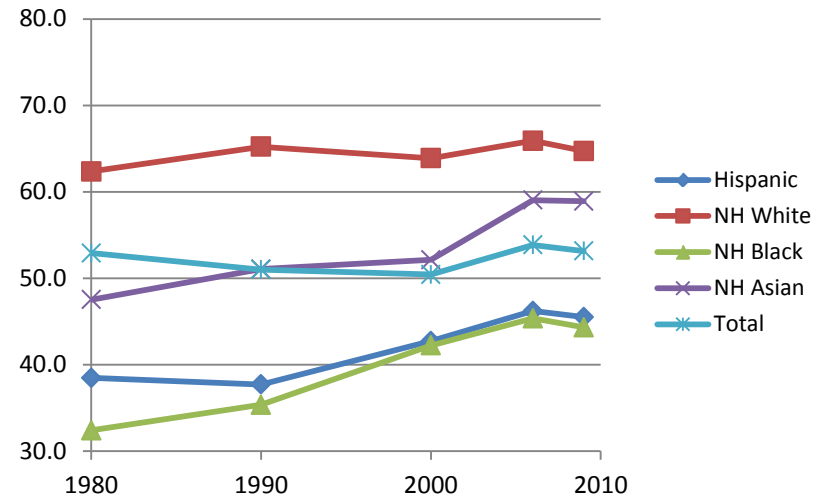
Homeownership rates

Native-born



- Homeownership increased 1980-2006 and decreased 2006-2009
- Whites, Asians, and Hispanics have the highest homeownership rates in 2006 and show huge drop in 2009
- Blacks were the highest in 2000 and steadily drop until 2009

Foreign-born



- Homeownership steadily decreased 1980-2000, increased 2000-2006, and decreased 2006-2009.
- Asians, Blacks, and Hispanics grew 1980-2006 and decreased 2006-2009

Data and Method

Data

- American Community Survey (ACS)
- 2006 (before recession)
- 2009 (after recession)
- Individuals living in top 100 populous metropolitan areas

Method

- A Bivariate Probit Models with Sample Selection
- The Univariate Probit Models might mislead estimations when a correlation coefficient is significant in the two binary choice models.

Variables

- Individual and household characteristics
 - Age, Gender, Marital status, Educational attainment, Length of stay of immigrants in the U.S., Person's income, Presence of children in household, and household income
- Areal characteristics
 - Housing market conditions
 - Median housing value, median housing value change, and median gross rent
 - Labor market conditions
 - Unemployment rates and employment changes
- Regions
 - Census divisions

Correlation Coefficients between household formation and homeownership rates

- The correlation coefficients have negative and significant for all racial/ethnic groups
- The correlation coefficients have larger values for Whites and Blacks
- The correlation coefficient for foreign-born Asians has the smallest value
- The differences between 2006 and 2009 for foreign-born are small, but the 2006 values are larger than the 2009 values across all racial/ethnic groups

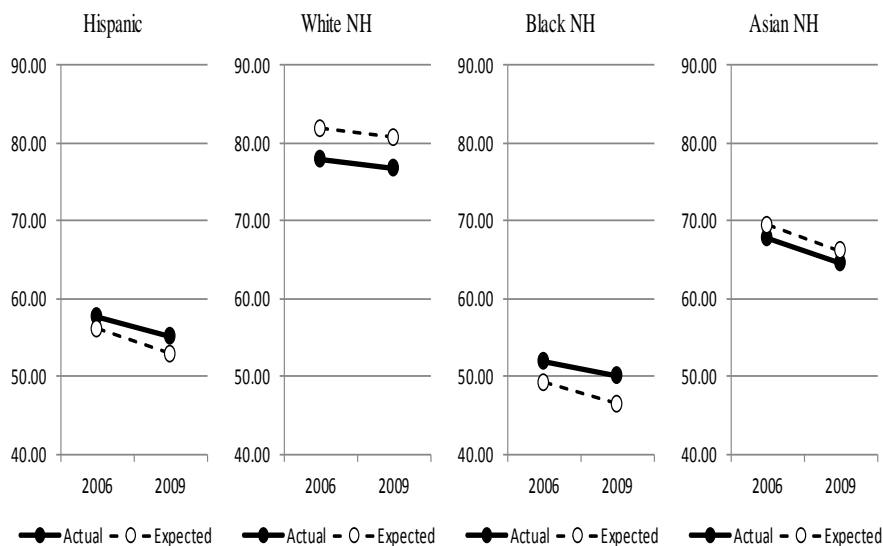
		Hispanic	NH White	NH Black	NH Asian
2006	NB	-0.499 ***	-0.670 ***	-0.656 ***	-0.422 ***
	FB	-0.569 ***	-0.584 ***	-0.483 ***	-0.229 ***
2009	NB	-0.440 ***	-0.689 ***	-0.624 ***	-0.259 **
	FB	-0.575 ***	-0.602 ***	-0.535 ***	-0.296 ***

*** p<0.001, ** p<0.01, *p<0.05

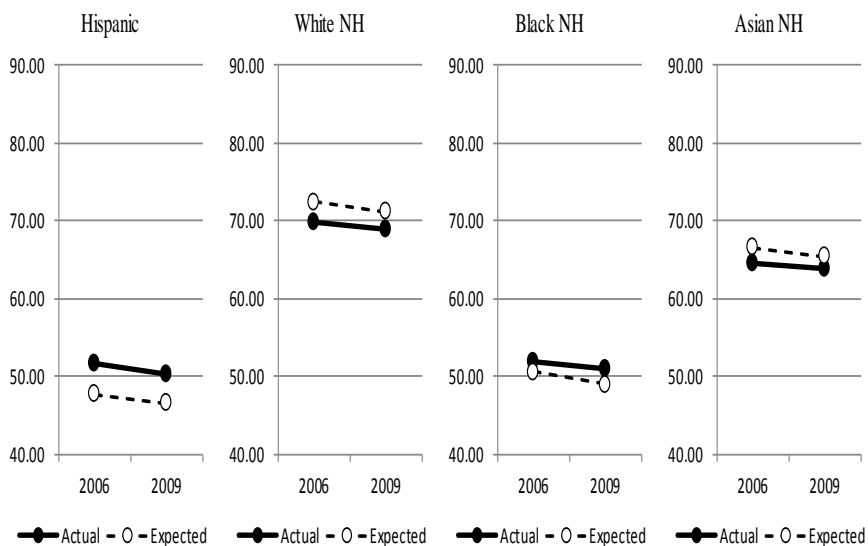
Homeownership Rates

Changes in actual and expected homeownership rates

Native-born



Foreign-born

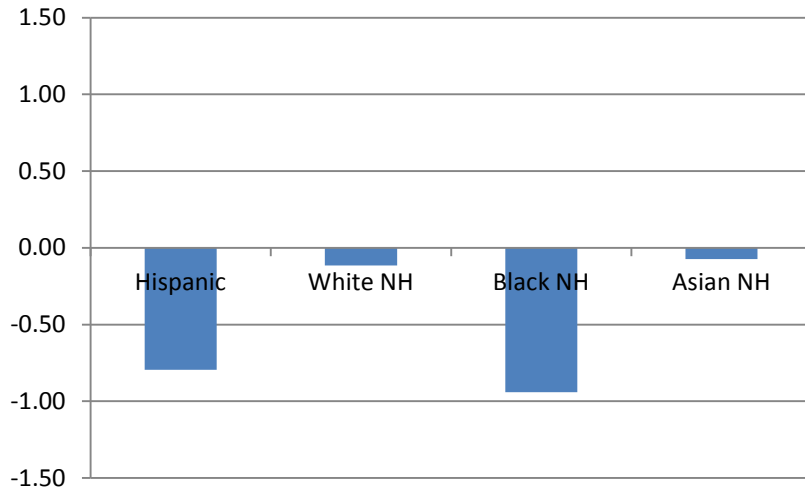


- Whites and Asians have higher expected value than actual value
- Hispanic and Blacks have lower expected value than actual value.
- Both actual and expected value declined between 2006 and 2009 across all racial/ethnic groups

- Foreign-born shows same patterns with native-born

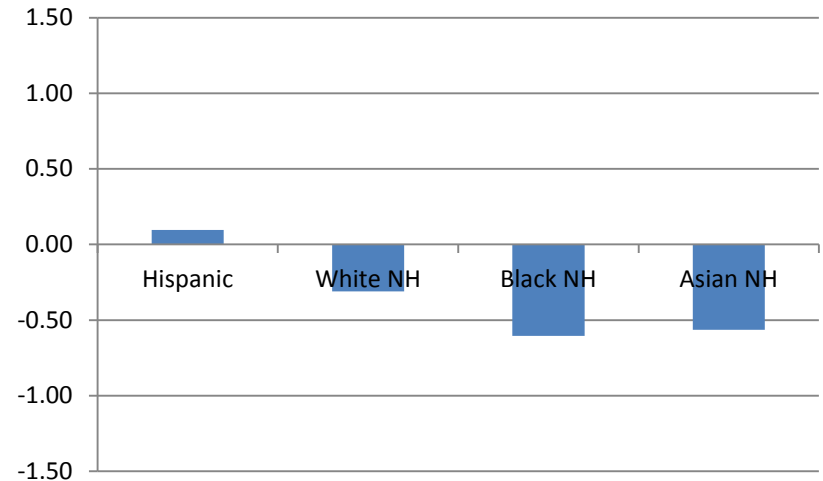
2006-2009 change in homeownership rates: actual vs. expected (expected – actual)

Native-born



- Homeownership rates show decline in all racial/ethnic groups
- Hispanics and Blacks have the larger differences of changes between actual and expected value

Foreign-born

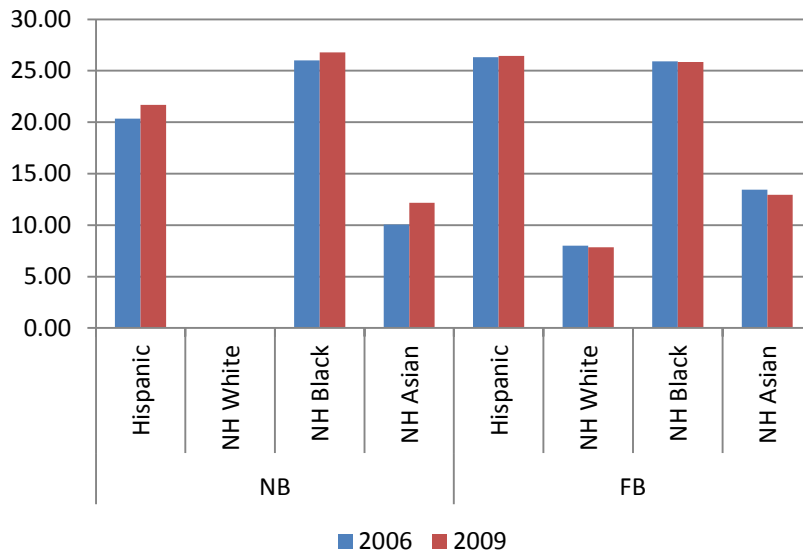


- Whites, Blacks, and Asians have decline in homeownership rates
- The effects of recession on homeownership rates for foreign-born are weaker than for native-born

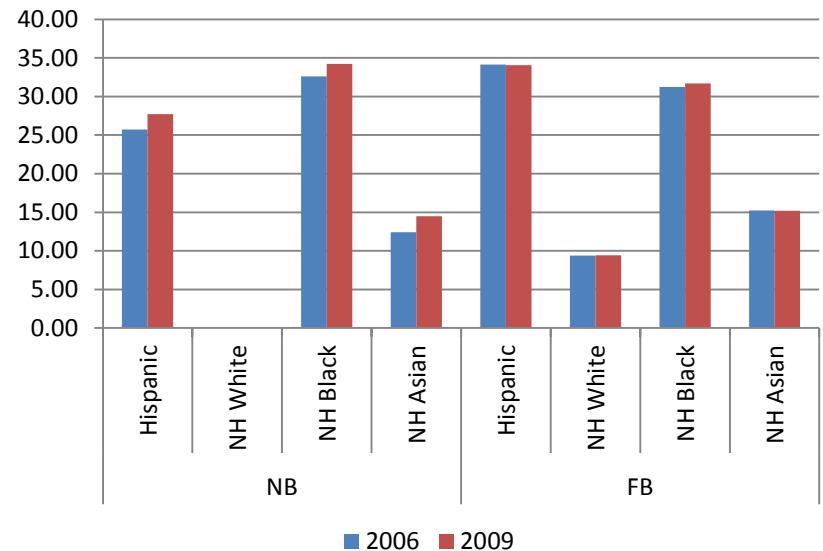
Homeownership Gaps Between Native-born Whites and Minorities

Homeownership gaps between native-born Whites and minorities

Actual Values



Expected Values

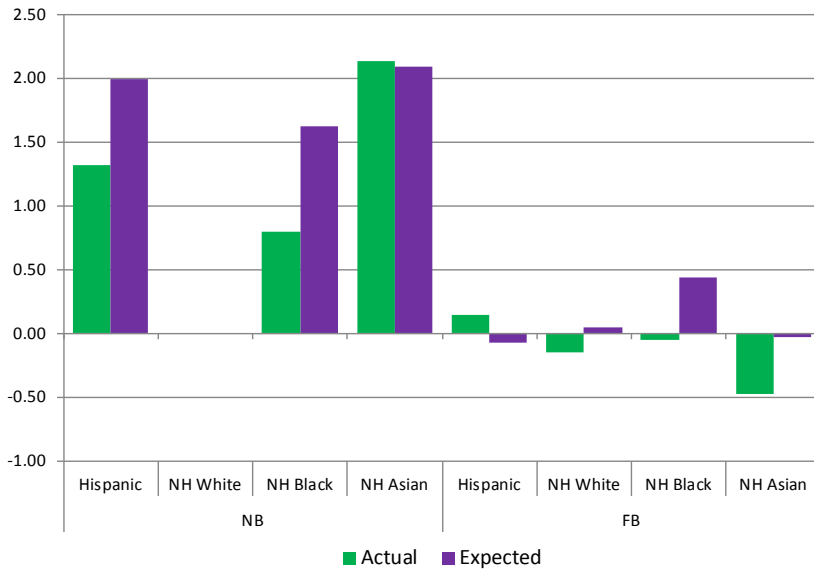


- Homeownership gaps were larger for Hispanics and Blacks than gaps for Asians
- Homeownership gaps between Whites and Asians were smaller than gaps between Whites and other racial/ethnic groups

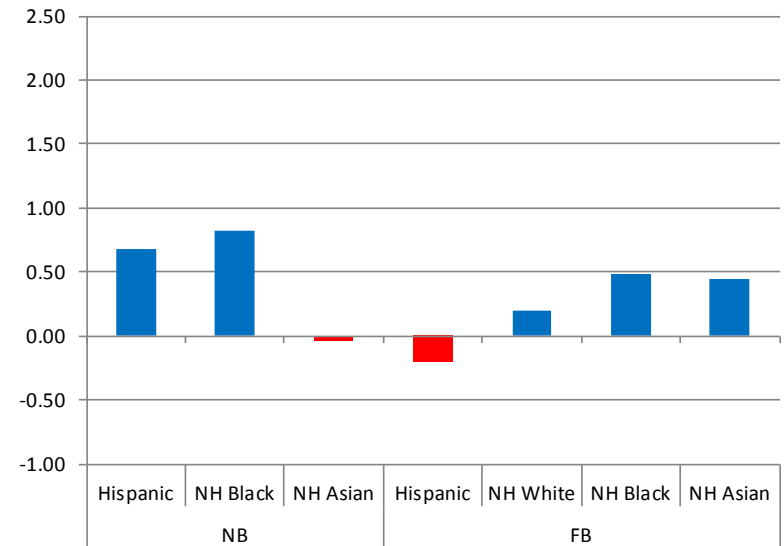
- Expected values shows same patterns with actual values
- Hispanics and Blacks shows larger gaps
- Asians shows smaller gaps

2006-2009 change in homeownership gaps

2006 vs. 2009



Actual (2006-09) vs. Expected (2006-09)



- Changes in both actual and expected homeownership gaps are large for native-born
- Actual homeownership gaps of foreign-born declined 2006-2009, while expected values show a different trend

- Homeownership gaps for foreign-born Whites, Blacks, and Asians decreased in actual values
- However, Homeownership gaps increased 2006-2009 after considering household formation

Conclusion (Hypothesis 1)

- **Hypothesis:** There would be a stronger effect of the economic recession on household formation and homeownership of the minorities or immigrants than that of the native-born Whites
- Homeownership rates decline more than actual rates after considering household formation during the great recession
 - Native-born Hispanics and Blacks have larger declines in homeownership rates than native-born Whites
 - However, foreign-born Hispanics show similar declines to native-born Whites

Conclusion (Hypothesis 2)

- **Hypothesis:** The gap in household formation and homeownership between minorities or immigrants and the White group would be larger
- Homeownership gaps between Whites and minorities in a recession are larger than in an economic boom year
 - Homeownership gaps between native-born Whites and foreign-born Whites, Blacks, and Asians look like they are decreasing in the current showing
 - but after considering household formation, the gaps are increasing between 2006 and 2009

Thank you